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June 30, 1994

RECEIVED

JUN 30 1994

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton
Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Re: Notification of Permitted Written Ex Parte Presentation in MM Docket Nos. 92-266 & 93-215

Dear Mr. Caton:

ParCable, Inc. by its attorneys and pursuant to Section 1.1206(a)(1) of the Commission's rules, hereby submits two copies of this memorandum regarding a permitted ex parte presentation to Commission officials regarding MM Docket Nos. 96-266 & 93-215.

Today at 11:00 a.m. Michael Grannon of ParCable, Inc. along with Donna C. Gregg of Wiley, Rein & Fielding, met with Patrick Donovan, Deputy Chief of Cable Services Bureau and Hugh Boyle, Accountant, Cable Services Bureau. The discussion related to the attached issues raised in the above-named companies' pleadings in the cable rate regulation dockets cited above.

Kindly direct any questions regarding this matter to the undersigned.

Respectfully submitted,

Donna C. Gregg

Donna C. Gregg

DCG/ddl
Attachment

cc: Patrick Donovan
Hugh Boyle

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Example 1 - Cost of Service Format

Comparison of Disparate Effects of New Rules On Income Tax Reimbursement Between C Corporations and S Corporations, Partnerships and Sole Proprietorships ("S Corp's")

Left side (column I): **Assumed Results For Base Year For Both C Corp And S Corp Cable Company Examples:** *(Assuming Same Regulatory Treatment - No Adjustments To ROI Or Income Tax Allowance)*

Right side (columns II and III): **First Year's Results Based on Base Year's Expense Structure But Revised Rate Rules:**

Revenue Calculations

		I Results For C Corp & S Corp Cable Companies	II For C Corp - Allowed For Rate Setting		III For S Corp - Allowed For Rate Setting	
ROI						
A	Net Investment In Assets	$10,000,000		$10,000,000		$10,000,000
B	Times: Fair Rate of Return p.a.	11.25%		11.25%		11.25%
C	Equals: Fair Return On Investment p.a.	$1,125,000		$1,125,000		$1,125,000
D	Less: Annual Interest Expense		$500,000		$500,000	
E	Equals: Interest Adjusted Fair Rate of Return p.a. (IAFROI)		$625,000		$625,000	
Expenses						
	Interest					
F	Annual Income Tax Allowance On IRFROI - If Only Federal Income Taxes @ 35.0% Base year = Grossed-Up By (C/(1-.35))*.35)) C Corp First Year = Grossed-Up By (E/(1-.35))*.35))	$605,769	$336,538		na	
G	S Corp Shareholder Distributions (='s Base Year Income Taxes)		na		$605,769	
H	S Corp Interest And Distributions Adjusted Fair Rate of Return (IADAFROI)		na		$19,231	
I	First Year Income Tax Allowance: C Corp = F; S Corp = Allowance On IADAFROI - If Only Federal Income Taxes @ 35.00%; Grossed-Up By (H/(1-.35))*.35)			$336,538		$6,731
	Other Expenses					
J	Annual Expenses, Other Than Income Taxes and Interest	$3,000,000		$3,000,000		$3,000,000
K	Annual Interest Expense	$500,000		$500,000		$500,000
	Total Expenses					
L	Total Expenses (Base Year = F + J + K; First Year = I + J + K)	$4,105,769		$3,836,538		$3,506,731
Revenue						
M	Annual Revenue (C + L)	$5,230,769		$4,961,538		$4,631,731

Earnings Retained In Business Calculations

		I	II	III
N	Revenue	$5,230,769	$4,961,538	$4,631,731
O	Less: Expenses Other Than Income Taxes	$3,500,000	$3,500,000	$3,500,000
P	Equals: C Corp Pre-Tax Earnings	$1,730,769	$1,461,538	$1,131,731
Q	Less: C Corp Income Taxes = 35.0% of O = S Corp Shareholder Distributions	$605,769	$511,538	$396,106
R	Equals: Earnings Retained In Business	$1,125,000	$950,000	$735,625
S	Earnings Retained In Business/Net Investment In Assets	11.25%	9.50%	7.36%

Notes:

1. For Purposes of Illustration, This Example Uses The Top Federal Rate For C Corp's, Even Though The Top Rate For S Corp's Owners Is Higher (39.6%).
2. S Corp Must Charge Less Than C Corp And Therefore Has Less To Reinvest In Business Than C Corp, Despite Same Fundamental Cost Structure and Same Fair Return On Investment.
3. If S Corp Was Treated Same As C Corp, Effect On Cable Entity Cash Flows And Cable Subscribers' Rates Would Be The Same.
4. S Corp's Will Make Distributions To Shareholders For Income Taxes On Cable Entity Earnings, And The New Rules Would Not Allow These Distributions For Income Taxes To Be Reimbursed Through Rates, Thereby Effectively Lowering The Net Return On Investment For a S Corp (Versus A Similarly Situated C Corp).

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Example 2 - FCC Form 1205 Format

Comparison of Disparate Effects of New Rules On Income Tax Reimbursement Between C Corporations and S Corporations, Partnerships and Sole Proprietorships ("S Corp's")

Left side (column I): ***Assumed Results For Base Year For Both C Corp And S Corp Cable Company Examples:***
(Assuming Same Regulatory Treatment - No Adjustments To ROI Or Income Tax Allowance)

Right side (columns II and III): ***First Year's Results Based on Base Year's Expense Structure But Revised Rate Rules:***

Revenue Calculations

		I Results For C Corp & S Corp Cable Companies	II For C Corp - Allowed For Rate Setting	III For S Corp - Allowed For Rate Setting
ROI				
A	Net Investment In Assets	$10,000,000	$10,000,000	$10,000,000
B	Times: Fair Rate of Return p.a.	11.25%	11.25%	11.25%
	Gross-up			
C	Assume Only Federal Income Tax Rate	35.00%	35.00%	35.00%
D	Interest Expense	$500,000	$500,000	$500,000
E	Base Return On Investment (A * B)	$1,125,000	$1,125,000	$1,125,000
F	Interest Deductibility Factor (D/E)		0.4444	0.4444
G	Effective Tax Rate (C * (1-F))		0.1944	0.1944
	S-Corp Adjustment			
H	Base Return On Investment (A * B)		na	$1,125,000
I	Distributions (='s Base Year Income Taxes)		na	$605,769
J	Returns Subject To Income Tax (H - I)		na	$519,231
K	Returns Percentage Subject To Income Tax (J/H)		na	0.4615
	Grossed-Up ROI			
L	Gross-Up Rate: C Corp = (1/(1-G)); S Corp = (1/(1-(G*K)))		1.2414	1.0986
M	Grossed-Up Rate of Return (B * L)		0.1397	0.1236
N	Return On Investment Grossed-Up For Taxes (A * M)		$1,396,552	$1,235,915
Expenses (Other Than Income Taxes)				
O	Annual Income Tax Allowance On Return On Investment For Base Year = 35.00%	$605,769	na	na
P	Annual Expenses, Other Than Income Taxes and Interest	$3,000,000	$3,000,000	$3,000,000
Q	Plus: Annual Interest Expense	$500,000	$500,000	$500,000
R	Equals: Total Expenses, Other Than Incmoe Taxes	$4,105,769	$3,500,000	$3,500,000
Revenue				
S	Annual Revenue (C + K)	$5,230,769	$4,896,552	$4,735,915

Earnings Retained In Business Calculations

		I	II	III
T	Revenue	$5,230,769	$4,896,552	$4,735,915
U	Less: Expenses Other Than Income Taxes	$3,500,000	$3,500,000	$3,500,000
V	Equals: Pre-Tax Earnings	$1,730,769	$1,396,552	$1,235,915
W	Less: C Corp Income Taxes = 35.00% of O = S Corp Shareholder Distributions	$605,769	$488,793	$432,570
X	Equals: Earnings Retained In Business	$1,125,000	$907,759	$803,345
Y	Earnings Retained In Business/Net Investment In Assets	11.25%	9.08%	8.03%

Notes:

1. For Pupose of Illustration, This Example Uses The Top Federal Rate For C Corp's, Even Though The Top Rate For S Corp's Owners Is Higher (39.6%).
2. S Corp Must Charge Less Than C Corp And Therefore Has Less To Reinvest In Business Than C Corp, Despite Same Fundamental Cost Structure and Same Fair Return On Investment.
3. If S Corp Was Treated Same As C Corp, Effect On Cable Entity Cash Flows And Cable Subscribers' Rates Would Be The Same.
4. S Corp's Will Make Distributions To Shareholders For Income Taxes On Cable Entity Earnings, And The New Rules Would Not Allow These Distributions For Income Taxes To Be Reimbursed Through Rates, Thereby Effectively Lowering The Net Return On Investment For a S Corp (Versus A Similarly Situated C Corp).

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Example 3 - FCC Form 1205 Format - Revised To Match Cost of Service Results (S Corp Does Not Match Exactly)

Comparison of Disparate Effects of New Rules On Income Tax Reimbursement Between C Corporations and S Corporations, Partnerships and Sole Proprietorships ("S Corp's")

Assumed Results For Base Year For Both C Corp And S Corp Cable Company Examples:
(Assuming Same Regulatory Treatment - No Adjustments To ROI Or Income Tax Allowance)

First Year's Results Based on Base Year's Expense Structure But Revised Rate Rules:

	Revenue Calculations	I Results For C Corp & S Corp Cable Companies	II For C Corp - Allowed For Rate Setting	III For S Corp - Allowed For Rate Setting
	ROI			
A	Net Investment In Assets	$10,000,000	$10,000,000	$10,000,000
B	Times: Fair Rate of Return p.a.	11.25%	11.25%	11.25%
	Gross-up			
C	Assume Only Federal Income Tax Rate	35.00%	35.00%	35.00%
D	Interest Expense	$500,000	$500,000	$500,000
E	Base Return On Investment (A * B)	$1,125,000	$1,125,000	$1,125,000
F	Interest Deductibility Factor (D/E)		0.4444	0.4444
G	Effective Tax Rate (C * (1-F))		0.1944	0.1944
	S-Corp Adjustment			
H	Base Return On Investment (A * B)		na	$1,125,000
I	Distributions (='s Base Year Income Taxes)		na	$605,769
J	Returns Subject To Income Tax (H - I)		na	$519,231
K	Returns Percentage Subject To Income Tax (J/H)		na	0.4615
	Grossed-Up ROI			
L	Gross-Up Rate: C Corp = ((1/1-C))*G)+1; S Corp = (((1/1-C))*K)*(G*K))+1		1.2991	1.0637
M	Grossed-Up Rate of Return (B * L)		0.1462	0.1196689
N	Return On Investment Grossed-Up For Taxes (A * M)		$1,461,538	$1,196,689
	Expenses (Other Than Income Taxes)			
O	Annual Income Tax Allowance On Return On Investment For Base Year = 35.00%	$605,769	na	na
P	Annual Expenses, Other Than Income Taxes and Interest	$3,000,000	$3,000,000	$3,000,000
Q	Plus: Annual Interest Expense	$500,000	$500,000	$500,000
R	Equals: Total Expenses, Other Than Income Taxes	$4,105,769	$3,500,000	$3,500,000
	Revenue			
S	Annual Revenue (C + K)	$5,230,769	$4,961,538	$4,696,689

	Earnings Retained In Business Calculations	I	II	III
T	Revenue	$5,230,769	$4,961,538	$4,696,689
U	Less: Expenses Other Than Income Taxes	$3,500,000	$3,500,000	$3,500,000
V	Equals: Pre-Tax Earnings	$1,730,769	$1,461,538	$1,196,689
W	Less: C Corp Income Taxes = 35.00% of O = S Corp Shareholder Distributions	$605,769	$511,538	$418,841
X	Equals: Earnings Retained In Business	$1,125,000	$950,000	$777,848
Y	Earnings Retained In Business/Net Investment In Assets	11.25%	9.50%	7.78%

Notes:

1. For Purposes of Illustration, This Example Uses The Top Federal Rate For C Corp's, Even Though The Top Rate For S Corp's Owners Is Higher (39.6%).
2. S Corp Must Charge Less Than C Corp And Therefore Has Less To Reinvest In Business Than C Corp, Despite Same Fundamental Cost Structure and Same Fair Return On Investment.
3. If S Corp Was Treated Same As C Corp, Effect On Cable Entity Cash Flows And Cable Subscribers' Rates Would Be The Same.
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